

The background of the slide is a solid light blue color. Overlaid on this are several large, overlapping, curved shapes in various shades of blue, ranging from a very light, almost white blue to a dark, deep blue. These shapes create a layered, organic effect, with some appearing as if they are floating or overlapping others. The overall aesthetic is clean and modern.

International Trade

Balance of Payments

Trade statistics

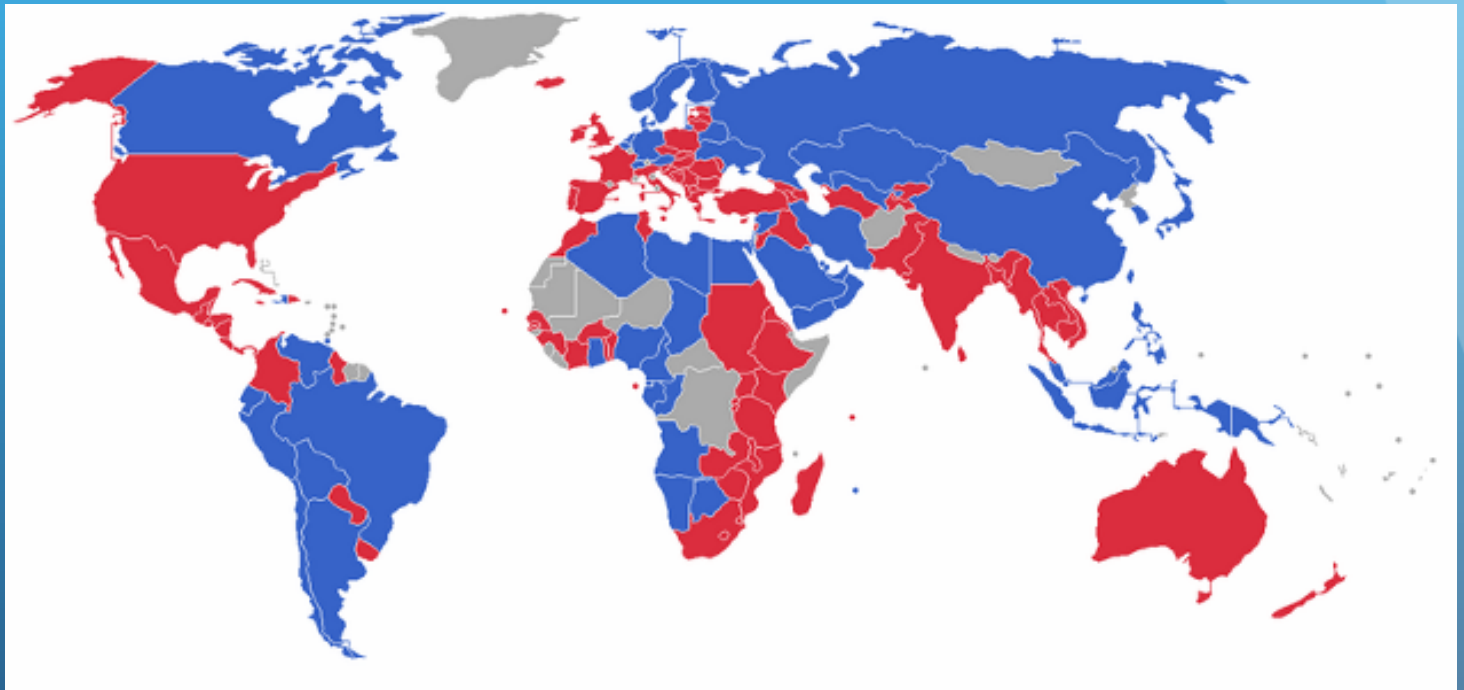
- As economists we need an overall view of our money transactions with the rest of the world.
- The government system for analysing this is the **Balance of Payments**.
- It is made up of three separate accounts. Together it measures all of the economic transactions that one country has with the rest of the world in one year.

1. Current Account
2. Capital Account
3. Financial Account



Trade statistics

- Balance of Payments



Red = deficit (more imports than exports)

Blue = surplus (more exports than imports)

Grey = no data

Balance of Payments shows all transactions between one country and the rest of the world

1

- **Current Account:**

- The trade in goods (exports - imports-)
- The trade in services
- Income Flows, interest, dividends.
- Current Transfers, presents.

2

- **Capital Account:**

- Sale and purchase of capital assets and non-produced or non-financial assets

3

- **Financial Account:**

- Direct investment in bank accounts
- Portfolio investment in shares

Balance of Payment transactions

A Russian firm buys 42 Below

Chemicals, meat, raw materials

Foreign Aid

A backpacker visits NZ

Buying shares in ANZ (Australia)

Interest

**Purchase airfare from
Singapore Airlines**

**Purchase of machinery
and computers**

Dividends

**A family from Taiwan settles in NZ
And brings \$400,000**

Direct investment

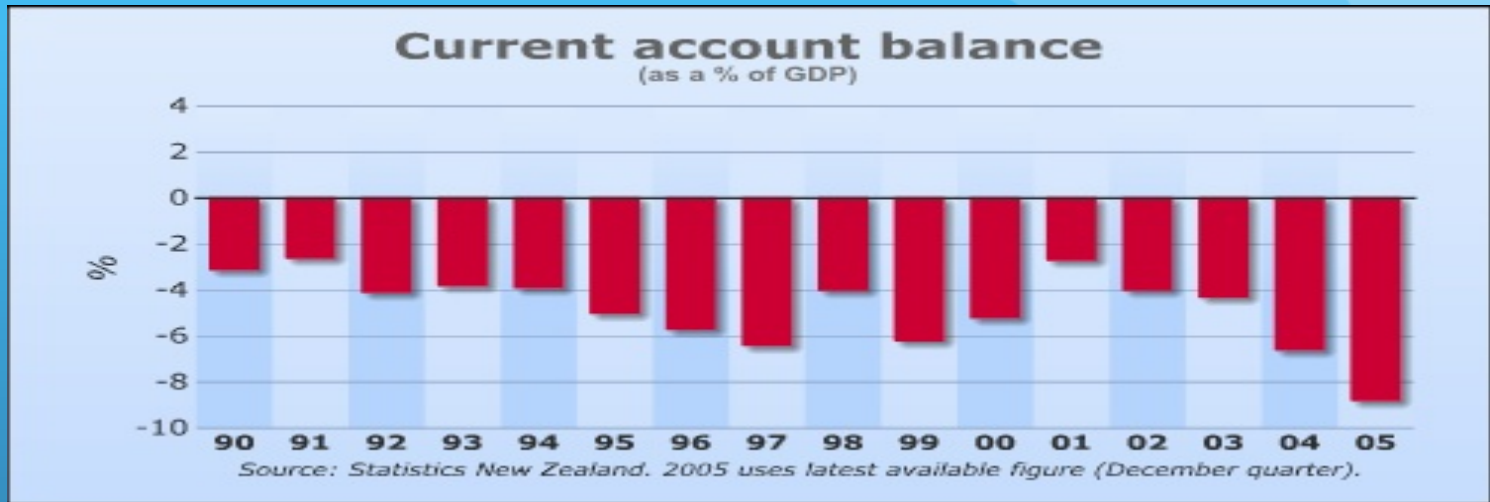
Profit

**Sale of music copyright
to Sony UK**

Insurance purchased from USA

**A NZ borrowing funds from
overseas for expansion**

Balance of Payments



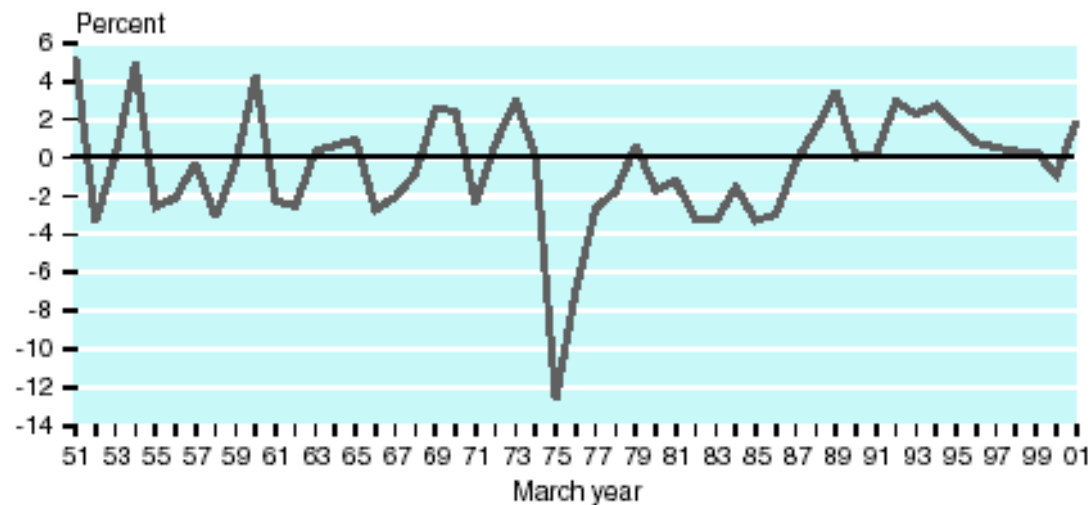
The Balance of Payments statements set out a country's transactions with the rest of the world.

The current account balance is the sum of the balances of trade in goods and services, current transfers, and investment income. More simply, the current account measures what a country saves minus what it spends or invests.

The graph shows that since 1990, New Zealand has been a net borrower. Thus, the current account deficit has reflected the amounts of other countries' savings that New Zealand has had to borrow, in order to finance spending. The last time that New Zealand was a net saver - that is, had a current account surplus - was 1973.

Balance of Payments

Balance of Trade in Goods and Services as a Percentage of Gross Domestic Product⁽¹⁾⁽²⁾
1951–2001



1. The goods and services as defined in New Zealand's balance of payments statistics.
2. Current prices.

Source: Statistics New Zealand

UK balance of payments: 2001 (£ millions)

CURRENT ACCOUNT

1. Trade in goods

a) Exports +191 211

b) Imports -224 259

Balance on trade in goods -33 048

2. Trade in services

a) Exports +77 076

b) Imports -62 373

Balance on trade in services +11 114

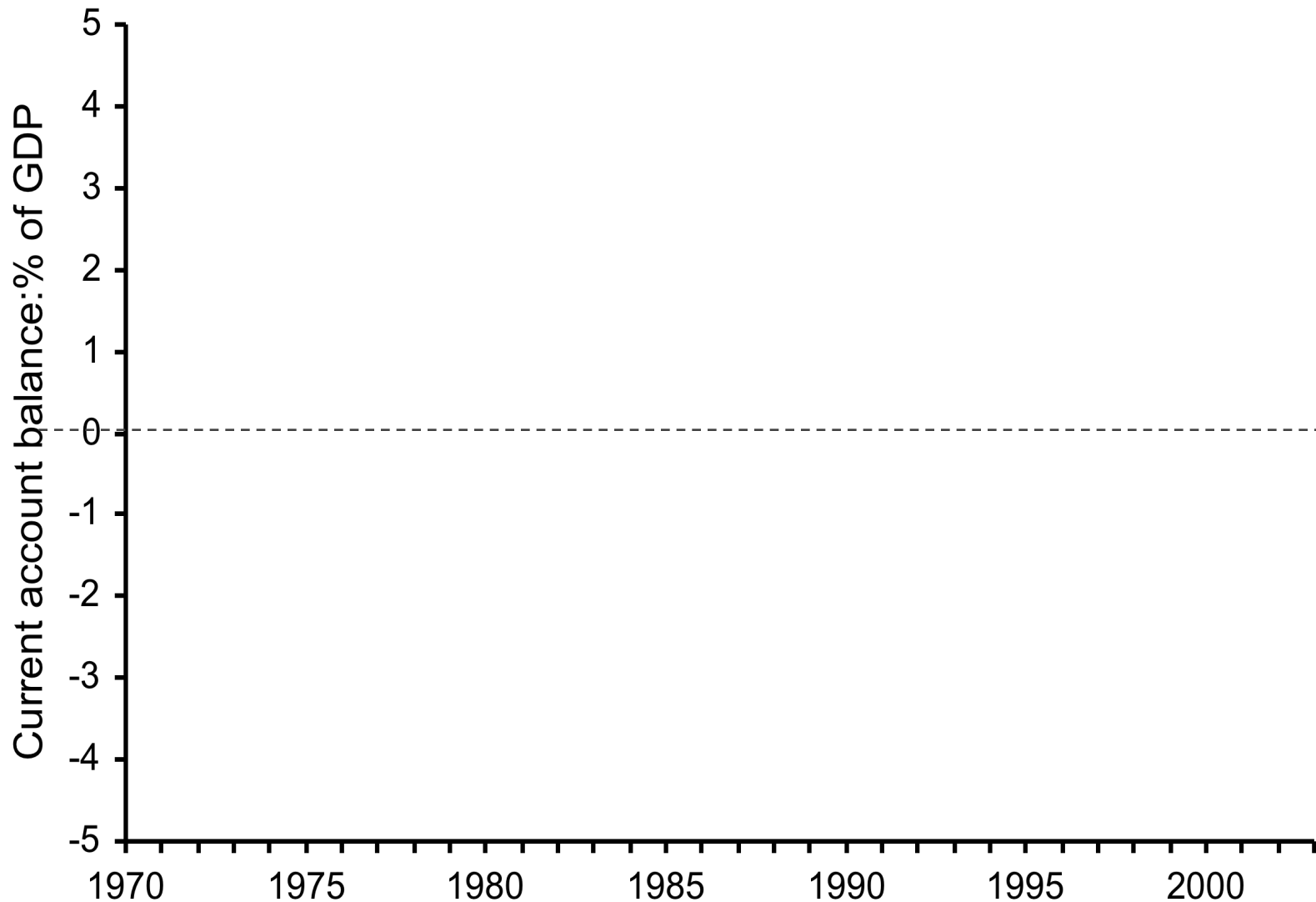
Balance on trade in goods and services -21 345

3. Net income flows (wages and investment income) +11 151

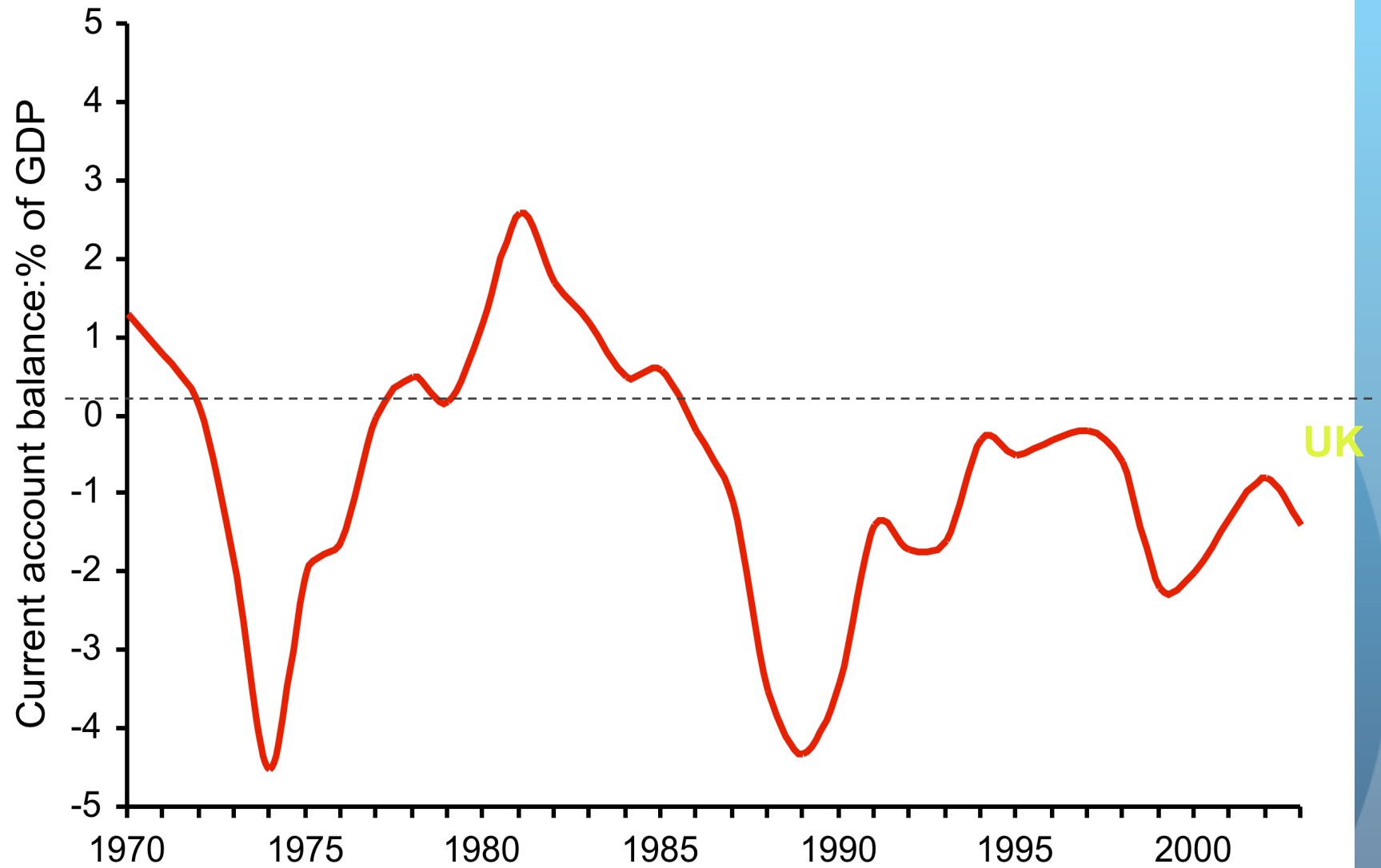
4. Net current transfers (government and private) -7 246

Current account balance -17 440

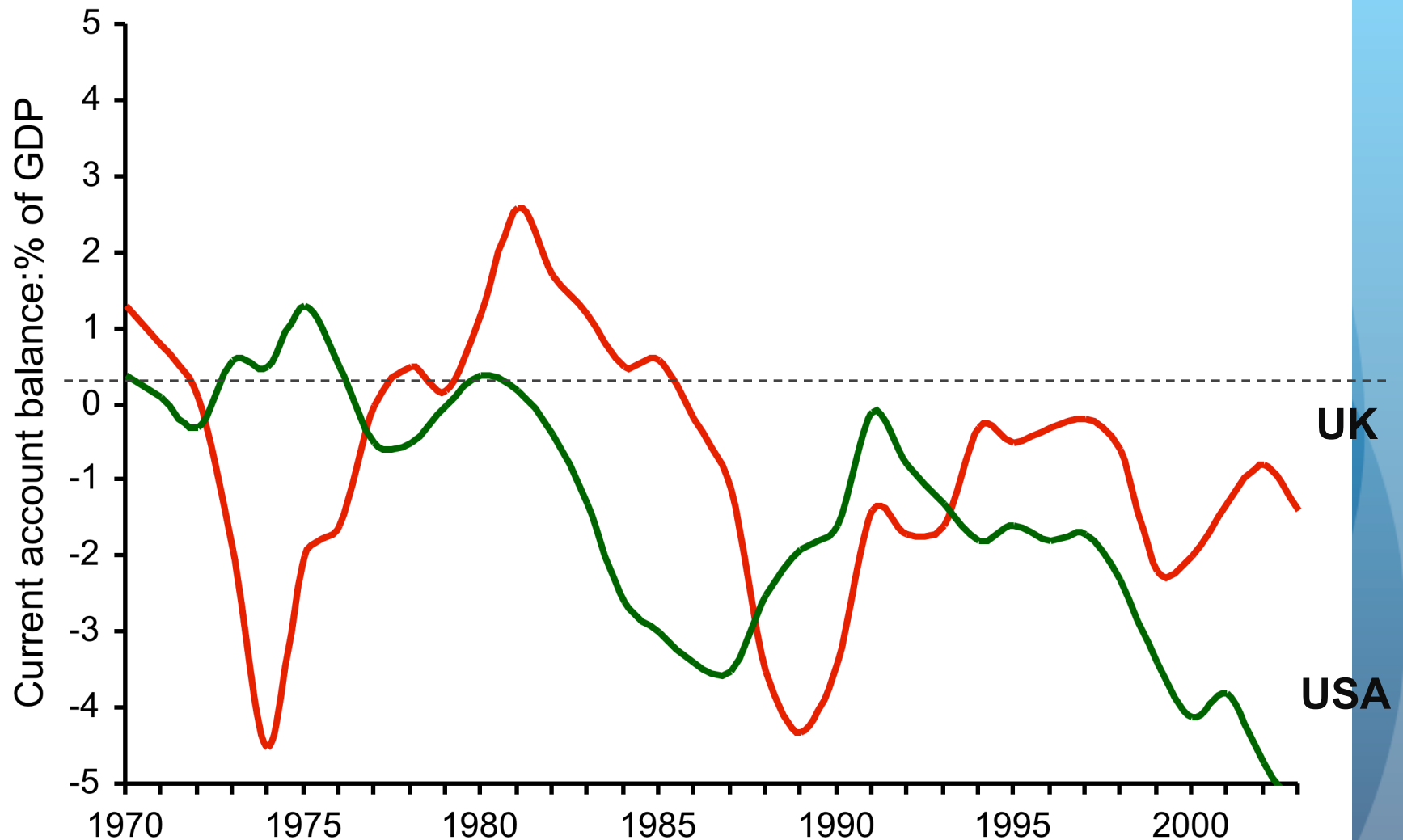
Current account balance as % of GDP in selected countries: 1970-2003



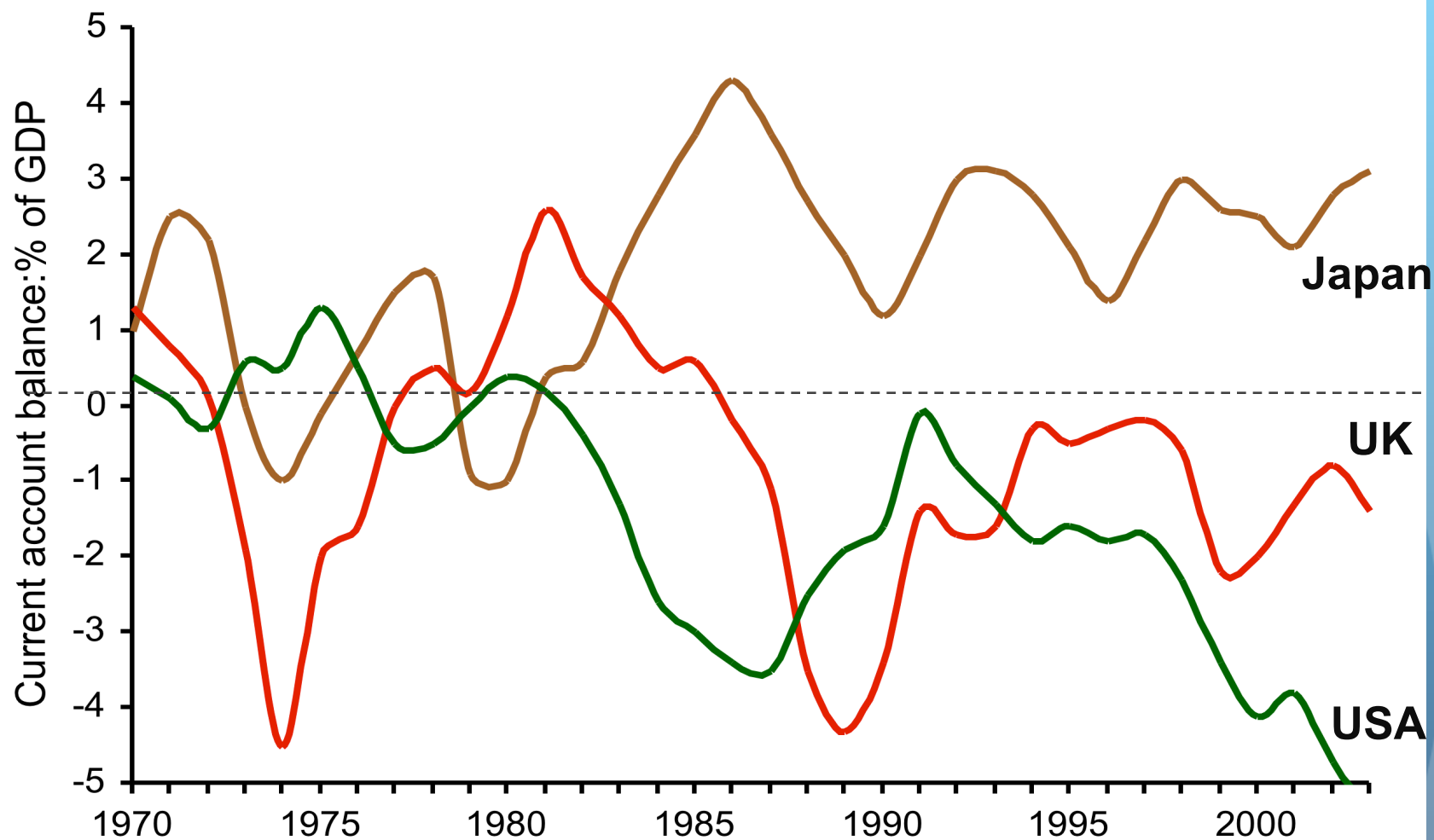
Current account balance as % of GDP in selected countries: 1970-2003



Current account balance as % of GDP in selected countries: 1970-2003



Current account balance as % of GDP in selected countries: 1970-2003



Consequences for Japan

Positive Current Account Balance, means that another part of the account must be in deficit to create a balance of money

Impacts include....

- 
1. A current account surplus usually means the country has high demand for its **exports**.
 2. This creates high demand for local currency (yen), exports must be purchased with yen, which leads to an **appreciation** compared to other countries
 3. An appreciation of currency makes **imports cheaper**.

Consequences for USA

Negative Current Account Balance, means that another part of the account must be in surplus to create a balance of money

Options include...

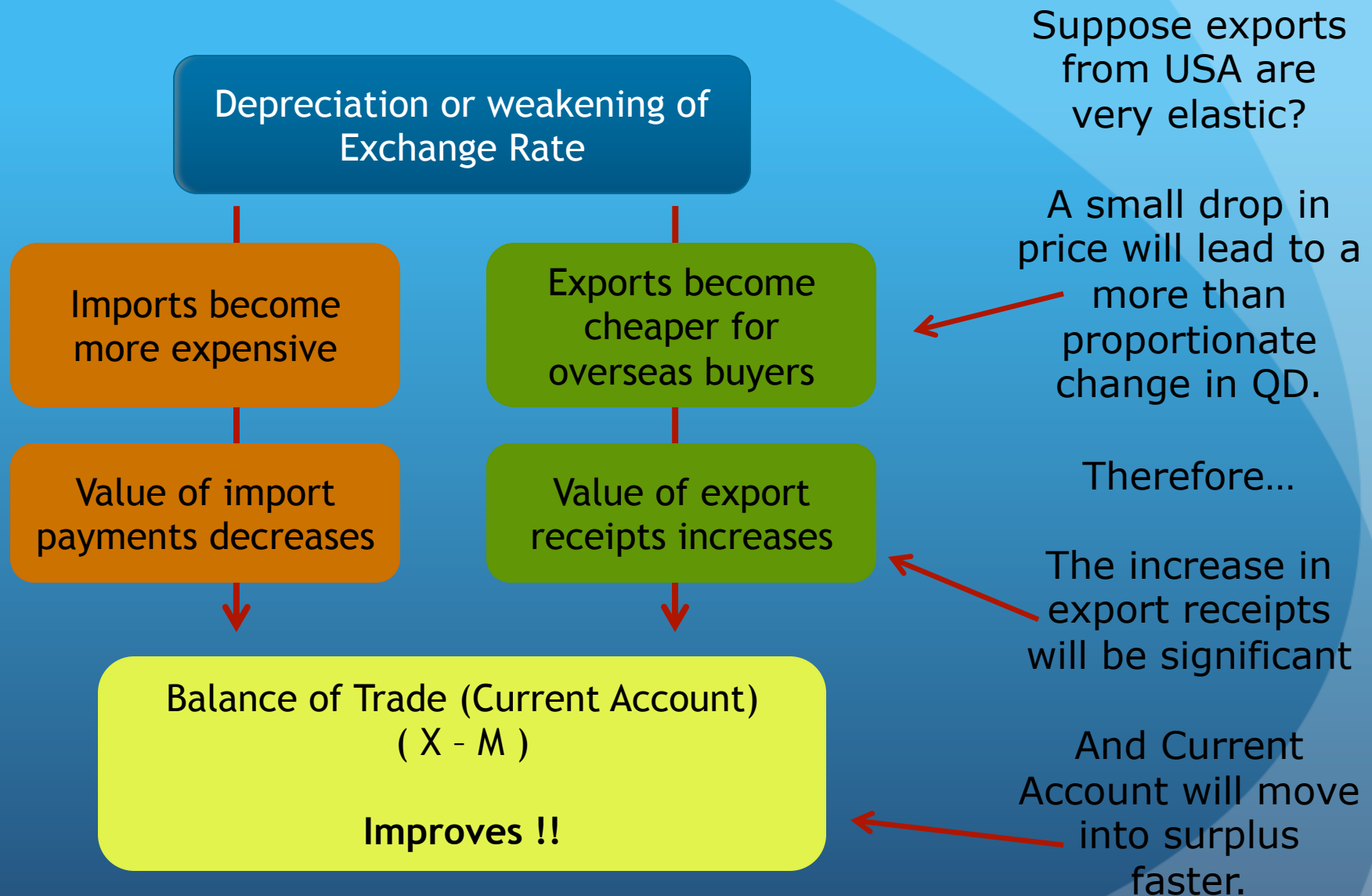
1. Can use its Foreign Currency Reserves to offset the deficit, this requires large reserves of funds (short term solution)
2. Sometimes foreign ownership of local assets can increase which balances the Current Account. This relies on confidence in the local market. Asian Financial Crisis in 1997.
3. Can be financed by high levels of lending from overseas countries. This requires a good credit rating with other countries and a short term impact of paying interest.

The magnitude of a deficit is important. Measured as % of GDP

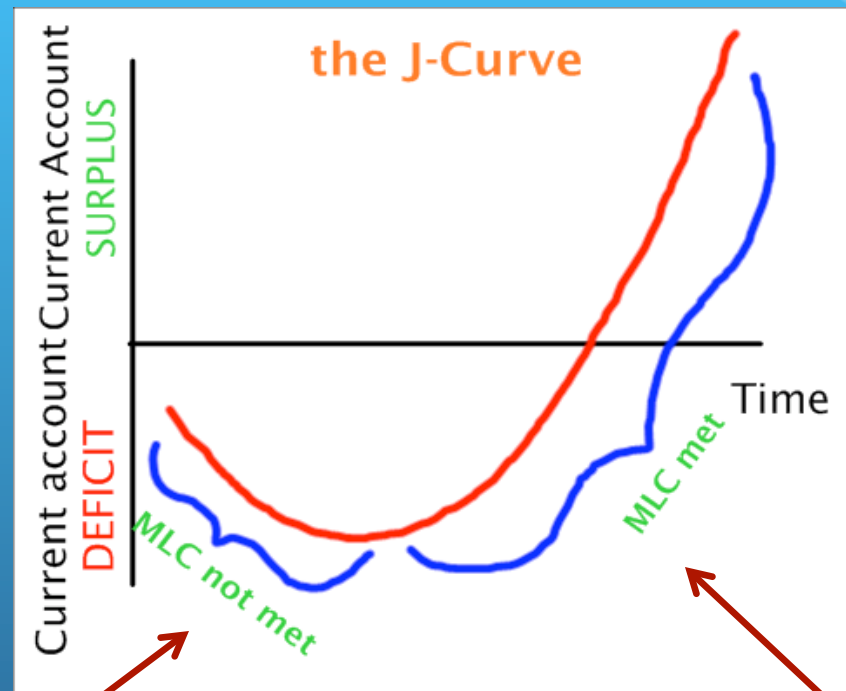
How do you fix a country with a large Current Account deficit?

- Encouraging people to buy locally produced products.
- Attempt to devalue currency to make imported products more expensive and exports more attractive to overseas buyer.
- Broader expenditure reduction policies - reducing aggregate demand.

Links...



Linking J Curve and the Marshall Learner Condition...



Demand for exports and imports is inelastic, Deficit in Current Account (bad, worsening)

Demand for exports and imports is elastic, improvement in Current Account (good)

Links...

If currency depreciates

And demand for
exports is elastic

Balance of Trade (Current Account)
($X - M$)

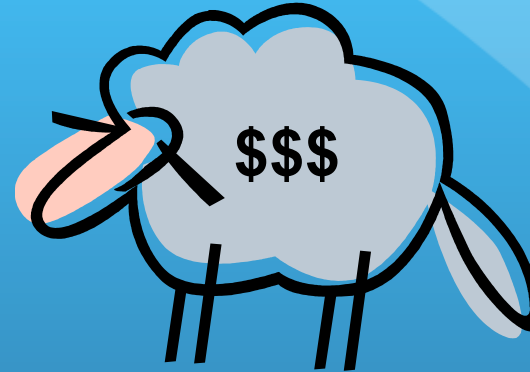
Improves !!

Exchange rates

Marshall Learner Condition

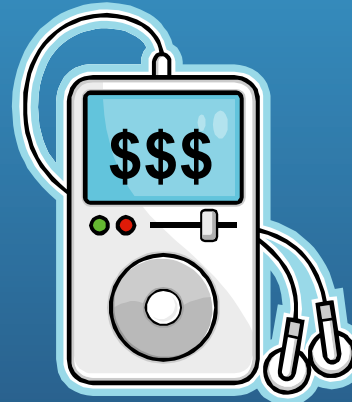
J Curve

Terms of Trade



TERMS OF TRADE =

 X 100



Explanation of Terms of Trade

- Overtime the average price of imports and the average price of exports can change.

These changes are measured with a concept called the **terms of trade**.

- Historically the price of primary products and raw materials such as wheat, rice, timber, wool, soya bean has been moving downwards. Many nations rely on exporting these to receive income.
- Historically the price of durable consumer goods has been increasing due to technological innovation. Many nations rely on importing these products. TV's, Washing Machines, Cars.



Terms of Trade



Export price index:
Shows change in
price of exports overtime

$$\text{TERMS OF TRADE} = \frac{\text{Export price index}}{\text{Import price index}} \times 100$$

Import price index:
Shows change in
price of imports overtime

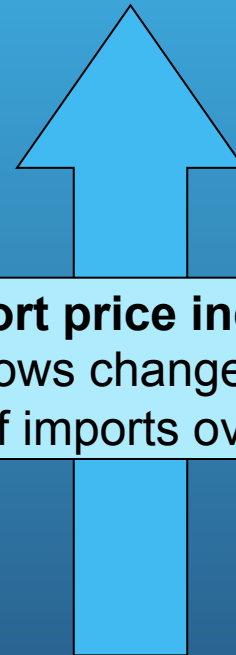
An increase in terms of trade is deemed...? Above 100 good

A decrease in terms of trade is deemed...? Below 100 bad

Terms of Trade



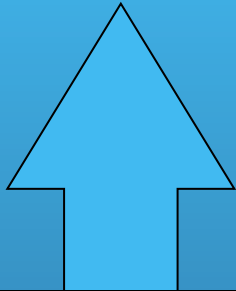
Export price index:
Shows change in
price of exports overtime



Import price index:
Shows change in
price of imports overtime

GOOD

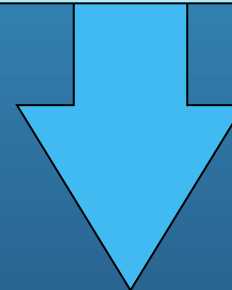
Terms of Trade



Export price index:
Shows change in
price of exports overtime



Import price index:
Shows change in
price of imports overtime



REALLY GOOD

Terms of Trade



Export price index:
Shows change in
price of exports overtime



Import price index:
Shows change in
price of imports overtime

REALLY BAD

Exporters

Appreciation = Bad

Depreciation = Good



APPRECIATION

NZ\$1 = US\$0.80



NZ\$1 = US\$0.70



DEPRECIATION

NZ\$1 = US\$0.60



Buy

Importers

Appreciation = Good

Depreciation = Bad

NZ\$25.00



APPRECIATION

US\$20.00



NZ\$1 = US\$0.80

NZ\$28.50



US\$20.00



NZ\$1 = US\$0.70

NZ\$33.30



DEPRECIATION

US\$20.00



NZ\$1 = US\$0.60

Sell

Buy

Foreign exchange market

APPRECIATION

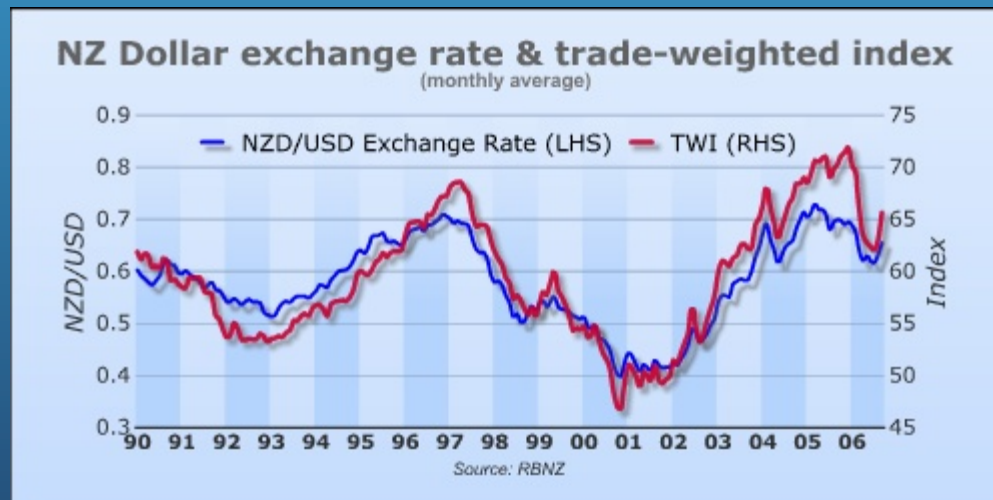
- When the exchange rate is high, people overseas have to find more of their own currency to buy NZ \$.....
 - This disadvantages exporters, as the price of their goods on the overseas market is relatively expensive.
 - Importers are advantaged as they need to find less NZ\$ to buy their imported goods.

DEPRECIATION

- If the exchange rate is low.....
 - Exporters are advantaged as price of their goods has fallen on overseas markets to QD increases.
 - Importers are disadvantaged as they need to find more money to pay to get their imports.

Trade statistics

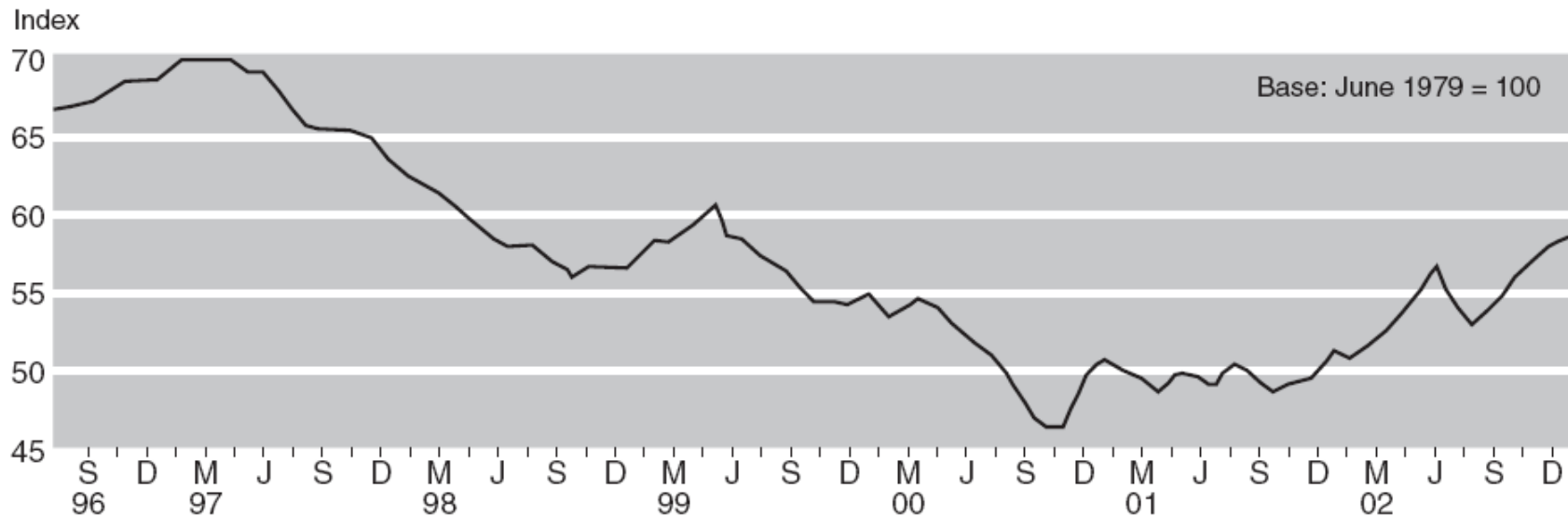
- Trade Weighted Index
 - It is a basket of selected exchange rates that are important to the NZ economy.
 - Each of the following exchange rates are weighted according to their relative importance.
 - This includes the currencies of Australia, Japan, USA, UK and the Euro.



Trade Weighted Index

- This is a measure of the NZ Dollar relative to the currencies of New Zealand's major trading partners.
- The TWI is the preferred summary measure for capturing the effect of exchange rate changes on the NZ economy.

Trade-weighted Index
Monthly



Trade Weighted Index

- Decrease in trade weighted index is the same as a depreciation of a range of exchange rates
 - (exporters advantages, importers disadvantaged)
- Increase in the trade weighted index is the same as an appreciation of a range of exchange rates
 - (exporters disadvantaged, importers advantaged)

